Capital Needs of Foreign Trade

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JUST what the maintenance of our normal foreign trade requires is a new question for the American people, and also one of great moment. It is in the fore-front of leading public affairs today. Although it is a new question, it is not a question that has come upon us suddenly. Rather it is a situation that has been creeping upon us over the last five years, and its proportions have been steadily growing greater. To be sure, almost everybody has been aware of the tremendous expansion that has been taking place in our foreign trade, yet only a few people have been much concerned with the problems growing out of it. Up to a comparatively recent date the American seller and the foreign buyer have not been much troubled with such terms as "balance of trade" and "rates of exchange," because the loans made by the American Government to foreign governments relieved the American seller and the foreign buyer of much the of burden of financing their transactions.

Relation of Credits to Foreign Trade

A brief review of the last five years will help us to understand the relation of credits to foreign trade, as well as show the capital needs of American foreign trade during that period. In the five years ended June 30, 1919, the merchandise exports from the United States to all countries amounted to $26,536,000,000. They increased from $2,364,000,000 in 1914 to $7,225,000,000 in 1919. After offsetting the merchandise imports from all countries, we still had a merchandise export balance—an excess of exports over imports—amounting, in this five year period, to $13,963,000,000. In addition to this merchandise export balance, our net exports of silver amounted to $382,000,000, making a total balance of $14,345,000,000 in our favor.

Statisticians will, for long years to come, find play for their imagination in figuring how this balance was settled; for no one knows just how much of it was settled by the so-called unrecorded and invisible items. We know that our net imports of gold amounted to $993,000,000. It is estimated that we also loaned abroad $11,702,000,000 including $9,102,000,000 credits, granted by our government to foreign governments. These figures indicate a balance of $1,650,000,000 that was settled by unrecorded and invisible items: such as interest and dividends of American securities held in foreign countries; payment of principal of maturing indebtedness; the repurchase from foreigners of American securities; the payment of freight charges to foreign ship-owners; remittances to foreign countries by foreigners resident in the United States; expenditures of American military and civil establishments abroad, and other similar items entering into the international balance sheet. We must also remember that during the period of our participation in the war our government exported great quantities of goods not only for its own use but also for sale to its Allies. These govern-

ment exports are unrecorded. If they had been added to the recorded exports, the balance settled by invisible items must have been much greater than the amount indicated above.

Now, it is manifest that the great bulk of the export balance was settled by the *extension of credit* to foreign buyers. It is also a fact that these credits consisted chiefly of loans granted by our government to foreign governments. But it is equally true that the American people were able to produce and to save and to lend large sums to foreign buyers, as well as the very much greater amounts loaned to our own government, to enable it in turn to make vast advances to foreign governments, for goods purchased in America by them and their nationals.

FOREIGN TRADE SINCE THE ARMISTICE

Balance of Trade.—Since the armistice was signed in November, 1918, government control of commerce and industry, both here and abroad, has been gradually relinquished, and government administration of private business has been gradually restored to private enterprise. What has happened as regards our foreign trade? With the war over, the excess of our merchandise exports over our imports for the first eight months of the 1919 calendar year was $3,012,000,000, as compared with $1,948,000,000 for the same period in 1918 and $41,000,000, for the corresponding period in 1914. In addition to this excess of merchandise exports, the net exports of silver and gold amounted to $250,000,000. It is estimated that the net repayments of private loans abroad in this period were $225,000,000, so that the balance to be settled for these eight months totaled $3,488,000,000.

How has this unprecedented balance been settled? Of the total our government granted credits amounting to $1,987,000,000. For this period then, $1,501,000,000 was apparently settled by other than visible items. In these it is believed that the settlement by the government of its accounts with foreign governments for expenditures abroad played an important part.

In line with the programme of relinquishment of government control of private business, our government has now practically ceased to lend, and foreign governments have practically ceased to borrow, the sums needed by foreign manufacturers and merchants to pay for goods they want to purchase in America.

Effects of Decreased Credit Facilities.—Because our government advances abroad have been cut off, and American manufacturers and merchants are no longer able to rely upon this resource for the handling of their export sales, the foreign trade problem now confronting the American people has become of the greatest moment. And the foreign trade problem becomes a new one even to people who have been doing a large export business. Such people, who, under government auspices, have been doing a large volume of export business without being much concerned with such matters as "balance of trade" and "rates of exchange," are beginning to find it difficult, if not impossible to transact their export business. They are beginning to have their export orders cancelled, because of lack of credit facilities.

Causes of Foreign Trade Difficulties.—We do not have to go far to find the reason. With government control over commerce largely removed and government financing of foreign trade practically stopped, the tremendous excess of purchases over sales in American mar-

kets by European countries has brought about an extraordinary fall in exchange rates. In other words, the foreign buyer now needs a much greater quantity of his foreign money to buy goods in American markets, and it has become increasingly burdensome to him to purchase such goods.

Take the British buyer for example: With sterling exchange at par, he formerly had to have £206 to buy $1,000 worth of goods in the United States. At the prevailing rate of exchange (this is being written early in November 1919*) he must now have £240 to buy $1,000 worth of goods here. Even if the prices of the goods were no higher than formerly, the British buyer is obliged, owing to the fall in sterling exchange, to pay the equivalent of $1,170 for $1,000 worth of goods bought here. Similarly the French buyer now has to have Francs 8,850 to buy $1,000 worth of goods in America, where formerly he had to have only Francs 5,180. The Italian buyer now has to have 10,820 lira where formerly he had to have only 5,180 lira. Similar comparisons apply to buyers in Belgium, Norway, Sweden, Denmark and Finland. And in this connection it should be noted that in the first eight months of the 1919 calendar year, 58 per cent of the total exports from the United States went to the eight countries mentioned.

THE FUTURE OF OUR FOREIGN TRADE

Now, as to the future. No one believes that America can go on piling up an export balance in its favor of $4,000,000,000 a year. Our exports reached their peak last June, with the staggering total of $919,000,000 for that one month. In that same month our imports were $293,000,000, leaving in our favor a prodigious export balance of $626,000,000 for the month of June alone. It is certain that the turn will come soon, if it is not already here. Early in the past summer foreign exchange rates fell heavily, making it very burdensome to foreigners, as I have pointed out, to purchase goods in American markets, on account of the great premium on the American dollar. In September our exports dropped to $596,000,000, while our imports rose to $435,000,000. So that the export balance in our favor for that month was reduced to $161,000,000.

Decline of Our Export Balance.—There are several reasons why our exports must decline. One is, that the impoverished European countries will sensibly import only the bare necessities for their domestic and industrial existence. American luxuries they will do without. Even though by such curtailment we forego profits, we should be glad to witness such an exhibition of frugality. On the other hand, our imports must increase. Neither should this result be deplored. We should be glad to see agriculture and industry made productive again in Europe, and we ought to welcome the opportunity to buy in Europe those things which the people over there can make for us better than we can make them for ourselves.

Foreign Credit Necessary.—Of course, the net result of the decrease in our exports and the increase in our imports will be, that the export balance in favor of this country will decline. But it is of greatest importance to us that this change should come about gradually and not abruptly. It is vital that the people of Europe should be able to secure in America the bare necessities of their domestic and indus-

* Since this was written the premium on the American dollar has become much greater.—Ed.

trial existence. It is equally important for America to sell those necessities, unless we wish to invite a violent change in our industrial conditions. If the contraction of our export balance is to be gradual rather than abrupt, we must continue to extend credits to our foreign customers, for there will be a considerable export balance for some time to come. We can count on only a limited amount of gold imports.

Extent of Foreign Credit.—It is hazardous, of course, even to venture a guess as to the amounts of foreign credits that will be required in the next year. It is true that our imports from Europe have increased from $22,000,000 in January of this year to $89,000,000 in September. In September our exports to Europe were the smallest, and our imports from Europe were the largest, of any month in this year. But, even in that month, our exports to Europe exceeded our imports from Europe by $272,000,000. Even if we assume that Europe can reduce her purchases from the United States by a substantial sum each month, and can also increase her exports to the United States by a substantial sum each month, it seems likely that the merchandise export balance in favor of the United States against Europe for the fiscal year ending June 30, 1920, will amount to about $3,000,000,000.

No one knows how this balance will be settled. No doubt we shall receive some gold. Probably some American securities still held abroad will be sold in our markets. It may be that some of the indemnities payable by Germany and Austria will be available for our Allies to utilize or pledge in the United States. But no one can tell how much of our merchandise export balance will be offset by the invisible items. If we assume that the invisible items will amount to $1,000,000,000, there will still be a balance of $2,000,000,000, to be settled during the present fiscal year by imports of gold or the extension of credit. How is Europe going to get these credits in America? Will America be able to lend $2,000,000,000 to Europe?

THE ABILITY OF AMERICA TO EXTEND FOREIGN CREDIT

America's ability to lend this sum will depend on the willingness of her people to produce and to save. To be sure, $2,000,000,000 is a great sum of money and yet if the average savings of every person in the United States were only 20 cents per day for 300 days, the aggregate savings produced would be $6,000,000,000. To be sure, some of these savings would be needed by the capital requirements of our own country, but there would still be a large sum that could be loaned to our foreign customers in Europe. During the last two or three years our people have been educated in saving. Twenty million Americans subscribed to our Liberty Loans. Now that the war is over, are we going to throw this education "into the discard," because of a notion that the necessity for saving ended with the defeat of Germany? Are we going to abandon the new habits of thought and action we so recently acquired? Wars are never profitable to a people. Yet it is true that one of the most valuable lessons which the war taught us is thrift, and President Wilson's words are as true today as when he spoke them on April 15, 1917:

> Let every man and every woman assume the duty of careful, provident use and expenditure as a public duty, as a dictate of patriotism which no one can now expect ever to be excused or forgiven for ignoring.

Europe is doing much to restore her own condition. But by herself Europe cannot do all. She cannot return to full health without our help, and that is where every citizen of America has a responsibility. Europe as a whole, with certain countries excepted, needs food, clothing, and raw materials for manufacture.

The tabl which appears below shows what have been the principal articles exported from this country in the first eight months of the 1919 calendar year. It shows clearly what articles Europe is most in need of. It shows also that people all over this country have a vital interest in the problem of our foreign trade and international credits. It shows that the co-operation and exertion of the whole people are needed to produce a surplus of goods for export to Europe, and to save up the capital that we need to lend to Europe to enable her to purchase these goods.

The extension of credit, the render-

EXPORTS OF DOMESTIC MERCHANDISE TO ALL COUNTRIES; VALUES BY PRINCIPAL ARTICLES. EIGHT MONTHS ENDING AUGUST,

	1914	1918	1919
Agricultural implements	$19,946,000	$24,198,000	$32,963,000
Animals	3,472,000	10,734,000	6,407,000
Brass and manufactures of	4,559,000	21,377,000	9,917,000
Wheat	76,805,000	50,774,000	223,909,000
Flour	31,756,000	198,949,000	221,689,000
Other breadstuffs	17,840,000	232,647,000	192,508,000
Cars, carriages and other vehicles	30,361,000	95,831,000	159,655,000
Chemicals, drugs, dyes and medicines	17,792,000	111,145,000	86,352,000
Coal and coke	37,851,000	77,486,000	76,482,000
Copper and manufactures of	89,713,000	143,153,000	78,767,000
Cotton, unmanufactured	236,409,000	385,295,000	674,979,000
Cotton, manufactures of	30,428,000	111,359,000	170,615,000
Electrical machinery, appliances, etc.	13,655,000	38,612,000	62,320,000
Explosives	4,143,000	169,120,000	18,718,000
Fibers and manufactures	7,725,000	22,633,000	18,996,000
Fish and fish products	5,813,000	21,552,000	29,944,000
Fruits and nuts	13,190,000	20,354,000	70,989,000
India rubber and manufactures of	7,679,000	20,756,000	34,826,000
Iron and steel, and manufactures of	140,246,000	704,676,000	684,662,000
Lead and manufactures of	3,524,000	10,861,000	6,348,000
Leather and tanned skins and manufactures of	35,491,000	60,606,000	191,961,000
Meat and dairy products	89,079,000	663,089,000	905,042,000
Naval stores	11,596,000	5,967,000	18,859,000
Oil cake and oil cake meal	10,883,000	882,000	19,312,000
Oils, vegetable	10,368,000	21,831,000	65,510,000
Oils, mineral	95,199,000	227,470,000	214,997,000
Paper, and manufactures of	13,337,000	33,420,000	65,034,000
Sugar and molasses	3,494,000	11,134,000	86,709,000
Tobacco and manufactures of	33,385,000	94,849,000	184,102,000
Vegetables	5,413,000	25,661,000	37,308,000
Wood, and manufactures of	61,279,000	57,762,000	85,402,000
Wool, manufactures of	3,148,000	13,557,000	28,658,000
Zinc, and manufactures of	699,000	13,264,000	18,227,000
Totals—above items	$1,166,278,000	$3,702,004,000	$4,782,167,000
Percentage of above items to total exports	90.62%	93.82%	92.79%
Totals—all exports	$1,286,875,000	$3,945,456,000	$5,153,398,000

ing of help to Europe, is a work for every reader of this volume. If we do not do our share, nobody else will. Europe wants to buy wheat. Our farmers have wheat to sell. Very well, the farmers must sell that wheat on credit; not all of it on credit, but a reasonable share. The farmer will extend that credit, not as to a single shipment of a hundred bushels, but through the method of investing in a thousand dollar bond of some solvent European country that may offer her promise-to-pay for sale here; so that with the credit which she established her people can buy American wheat. And the same formula applies to all manufacturers, the same to all merchants. If we do not want the people of Europe to go hungry and cold, we will produce and save the wheat and the cotton they need, and we will lend them the money to pay for it. This we will do by concerted saving. Our people have proved that they have acquired the habit of efficient providence, of care rather than of carelessness—qualities that go far to affect materially, and for the better, all our national activities.

America must be first in generous thought and action; first in the confidence which she shows in her fellow nations; first in the heart of all the world by reason of her friendliness and helpfulness to the world.